



# 12-Unit Build-To-Rent Community In Independence Heights, Texas

WITH **JOSE BERLANGA**,  
MULTIFAMILY SYNDICATION  
EXPERT



Whitney Elkins-Hutten of PassiveInvesting.com interviews [Jose Berlanga](#), who has been building in Houston for decades, about the unique development playbook required for a build-to-rent community in a transitional neighborhood, especially when market conditions force a sudden pivot. Jose details his unexpected journey with the Barbara Rose 12-unit project, explaining how his team manages complex raw land acquisition, in-house entitlements, and the critical due diligence process that balances horizontal and vertical costs. Discover the struggle of bridging the construction loan to the permanent DSCR debt, the capital reserves needed to survive a market inflection point, and the sage advice on contracting and partnering to avoid common landmines for your first BTR development.

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# 12-Unit Build-To-Rent Community In Independence Heights, TX With Jose Berlanga, Multifamily Syndication Expert

I'm excited to be joined by [Jose Berlanga](#). Jose, welcome to the show.

Whitney, it's great to be here.

**I am so glad you're on because we are talking about a unique model, a built to rent community. Oftentimes, people don't think of that as like straight up multifamily because what do you end up with? Often like a group of single-family homes or town homes. However, it can be a unique opportunity to actually build your own multifamily community but have a different exit plan. I'm super excited to talk about Barbara Rose, twelve units, Independence Heights, Texas, which is right outside of Houston. Before we do that, Jose, tell us a little bit about your background and where you're at in the multifamily space now.**

Yes, thank you. I'm in Houston, I've been building for decades. I've built a few thousand homes. I've done a lot of remodeling projects in the multifamily and somehow we ended up doing some built to rent due to economic changes, trying to adapt, trying to understand the market. It's become a very, very popular concept where people prefer or many people want to live in a home, in a single-family home, they want the amenities of their own drive, their own garage, their own structure, they don't want to be in a community of apartments, and we've been trying to do some of those projects.



We must truly understand what we're going to build, how many we can fit and what we can comfortably sell or rent them for. If you cannot understand those numbers, you shouldn't proceed.

## Raw Land Acquisition And Entitlement: Building A Houston BTR Pipeline

**I'm super excited to dive into it. We're going to talk about Barbara Rose, twelve units, Independence Heights, Texas. Since this is a little bit different, I'm going to back it up. When did you land on buying this piece of land and how did you find it and was it already entitled?**

It was not entitled. We buy a lot of raw land. It's platted already in let's call it transitional neighborhoods in the inner city. We do a lot of projects, by the way. I build probably a couple of hundred homes a year and some of these we convert them into built to rent communities. We found this property through many of the brokers and relationships that we build over the years. We also own a real estate company here that that looks for these types of deals and we determine what is the best utilization on any given project. This one could fit comfortably twelve homes. We replatted it, we did all the entitlements, we have a development department in house where we do our permits, we do the development, we do the design, the civil permits, all of that was done in house.

**When did you find the land? Let's talk about timeline because I think someone who might be reading the show might be super attracted to the idea of doing a build to rent model. However, it's not like a regular multifamily deal where you maybe get under contract and six months later, you close. It's a very different timeline. I want to make sure everybody understands all the work that goes into this. So.**

There is a lot of work. We have a little bit of a benefit to this respect because we're always buying properties before we need them. The fact that we have a pipeline of properties allows us to buy them. Something I always recommend is try not to borrow for land because it's a very speculative aspect of the market. When you borrow against land and the economy changes, it's harder to sell a piece of land than to sell some apartments or to sell some homes. We try to pay it cash. We bought it about a year prior to the project. The entitlement process took approximately 6 months and another 6 months to build it. It's about a year give or take comfortably for you to build something of this kind.

**Tweet: Try not to borrow for land because it's a very speculative aspect of the market.**

**Okay, so you find the piece of land. Did you know at that point in time that you wanted to put twelve homes on it or did you buy the land in cash, bank it and then decide what the highest and best use was going to be?**

No, we definitely design a site plan. That is during our feasibility, during our due diligence process. We must truly understand what we're going to build, how many we can fit and what can we comfortably sell them for or rent them for. If you cannot understand those numbers, you shouldn't proceed. It doesn't make sense to proceed and speculate by not knowing what the outcome is going to be.

## Penciling The Land Deal: Calculating Horizontal And Vertical BTR Costs

**Let's take a few minutes because this is a different process of due diligence than somebody who generally reads the show that's you know hearing about a multifamily deal that's closed. You had the piece of land, you understand, you put it under contract, you're trying to understand what is the highest and best use of this piece of land it'll hit your business model. How are you penciling out all those numbers especially if the land's currently not titled and platted to your current business plan?**

It is a little bit different than apartments or buildings, high-rises, mid-rises. Our numbers are very well known by us. They're repetitive because we know our land cost, our development cost, our construction

cost. We have our checklist of items that need to be considered. We have our entitlement what is the replat, what is it going to cost us, do we need a detention or retention, how much space do we need for drainage.

We run all of our soft cost, which is from closing costs all the list of items the running the lines of water, the sewer, the electrical, the cable, fences, gates. We have a development budget which is your horizontal cost. Unlike a vertical building, you have to consider those aspects you have to build the infrastructure in the streets. We do numbers for that and then we do the vertical numbers which is the construction of the property. We put all those together and then figure out if there's a profit to be had once we rent the units or sell the units.



We can't rent them until we pay off the loan but we cannot get a new DSCR loan until we rent them. We were caught in the middle of that one and that was a juggling act but we successfully achieved that.

**Let's use Barbara Rose as an example. What was the cost of land, what was, as you said, the horizontal cost and then what were the vertical costs and then what was the decision point where you said, "This is the type of margin that I'm looking for and we're a go?"**

We got a little lucky. I must say there's always an ingredient there which is the market helping or affecting. This development was not purchased or planned to be a build to rent. I was mentioning to you that we did a number of build to rent projects but none of them were planned to be build to rents. They were originally projected to be sold. I'll go through the numbers but where we got lucky is that the rental market was doing so well and we were able to convert them. I'll use the Polquin and Barbara Rose example. We bought the property for approximately \$350,000. We paid cash for it.

**How many acres was that? I just want to give a context to the size.**

It was approximately one acre. Let's call it less than an acre. Three quarters of an acre, something like that.

**On three quarters of an acre, you can put twelve homes. That's amazing.**

You can put more. In the inner city, you can put probably twenty homes in an acre some something like that as long as you have a minimum footprint that is required. We had enough space to do it. That was not one of the challenges. The challenge was making the numbers work. If we split it into 12 properties so that gives us a \$30,000 per lot basis. We spent, give or take, \$200,000 per home. This is give or take \$125 to \$130 a foot on a 1,650 a square foot construction. You have to add your soft cost.

We projected marketing sales commissions all of that and that gave us a sales price of approximately \$350,000. That was the original plan. When we got close to completion, the market got pretty bad in that price point. We thought to ourselves, "Why are we giving away houses? We've done that many times. This is an amazing, we own the entire community and it was all fully built. Why don't we just hold on to it until the market changes? Let's try to rent them." to our surprise, they rented very well. That was how it happened. We weren't really planning to do a rental community but that's the way it turned out to be and the rental market turned out to be better at that moment than selling the homes.

## Solving The Financing Gap: Construction Loan To DSCR For Your BTR Community

**Okay, so you took a \$350,000 piece of land. Of course there's a lot of cost into entitle it, develop the business plans and you converted it into twelve homes that are average \$300,000 to \$350,000 each. That's a nice lift there. We can't exit right now, the market softened, so you go to rent the properties. What were you getting for rent? Were they 3-bedroom, 2 baths, 4-bedroom, 2 baths?**

Yes, 3 bedrooms 2 bathrooms. To finish on the on the numbers, we left the land as equity. We borrowed the rest from the bank which was for construction and development, give or take let's say \$2.8 million. That allowed us to complete the homes to build them. By contributing the land, we were able to borrow the rest. When we completed them, the first challenge was that this was a construction loan, this was not one of those convertible lines of credit. That was one of our biggest issues. In a conventional rental program, you're able to rent the units and then convert it to a permanent loan.

In our case the loan that we had structured did not allow us to rent them or to occupy them. There was a little bit of juggling and that was a struggle. We were able to get it negotiate with the bank and allow us to rent them because it was a chicken or the egg. We can't rent them until we pay off the loan but we cannot get a new DSCR loan until we rent them. We were caught in the middle of that one and that was a juggling act but we successfully achieved that. We rented them for approximately \$2,500. The numbers worked out very well. Owing \$2.8 million which is approximately \$230,000 a unit, the numbers work very well at that rent.

**Yeah, just so it sounds like it's a little bit below the 1% rule, which in this part of the market cycle is very good. Mind you, your valuations are much higher but your cost in on the property was much lower. Did I get that about correct?**

Yes, correct. The rental covered pretty much everything and it's actually cash flow positive because once we were able to convert the loan and borrowed approximately \$240,000 a unit, let's call it, the objective is that your rent needs to cover 1.25% of the payment to your bank, the note. We were able to achieve that. The rent did cover that plus the expenses and gave us a little bit extra.

**Tweet: Your rent needs to cover 1.25% of the payment to your bank.**

**Now, there's so many rabbit holes I want to go down here that I think are very important for our audience to understand but let's stick on the financing piece right now. You bought the land all in cash, you had the construction loan. What were the terms on the construction loan as far as duration and percentage that you were paying?**

Traditionally, they're about one year construction loan. We have guidance lines of credit with multiple banks where we obtain those. If it matures after a year, you normally are able to get a 90-day extension if for whatever reason you fall behind. This is strictly interim financing. Once you complete the project, you have to exit that loan, pay it off and either sell the homes and pay them off or convert them to a new loan. The interest rate was at the time prime plus one. That is what we're normally obtaining on our construction loans. That's pretty traditional. When we converted them, we were under 7%, 6.75% I believe, give or take.

**What were you paying? Prime plus one. For our audience, what does that work out for from a cost perspective? Were you at like 9%, 10% percent on the construction?**

I think prime right now is 8%. It keeps changing but at the time, it was approximately 9%.

**You're at 9%, which is pretty high. That loan's coming due, you converted the loan or renegotiated, exited that loan, put in more permanent debt and now you dropped you know almost 300 basis points it sounds like or 250 basis points. What are the terms on that loan? Is it 3-year, 5-year, 7-year, interest only? Help me understand that.**

We got into a great program one of those debt service DSCR loans amortized at 25 years and it's for the 25-year duration. You do have a three-year penalty. It's 3, 2, 1. If you sell the property in the first 3 years, you have to pay 3%, then 2% if you sell it on the second and 1% if you sell on the third. Basically, they want to ensure that you hold that loan for at least three years. It is a long term.

This was not a bridge loan which we've also worked with. Sometimes you're in a hurry and you're not able to secure it or you're not able to rent all the units which we were able to do very quickly in order to get the permanent loan. If you don't have that in place, then you have to go to a to a bridge loan. They are a little more flexible if you're not fully rented, occupied, but the interest is a little bit higher. We were able to rent them very quickly and go straight to a permanent loan.



In order for us to sell them, we would have to substantially discount them. That's when we pulled the trigger and said no, let's put one for rent and see what happens or a couple of them.

## Beyond The Loan: Essential Land Due Diligence And Utility Surprises

**Now I want to set the financing piece aside and back up to the due diligence. We're to the point where you're building, but along the way, during the closing process, you're probably doing all sorts of things with the land, regarding entitlement and everything like that. At what point in time, what high level checks do you have to have checked in order to say, "Yes, we are closing on this piece of land?"**

We do our environmental tests. We require title work, number one, make sure there are no restrictions. This is the number one step. Without title commitment, now you can order your survey. Now you can review and make sure that nothing is preventing you from being able to build, whatever is you intend to do. We do our phase one environmental, came back clean. We meet with the city, we meet with engineering, we meet with city planning department and we also met with center point which is our local utility company.

You want to make sure that you're able to get services, electricity and water department. All of these entities we had to go through before we close. They're very normal, very standard. Water and sewer, city of Houston for all of your utility center point for your electricity, city planning for the replat and environmental. They all came clean, everything checked out. As a matter of fact, we try to do that before the feasibility period expires, forget the closing. By the time we don't even start spending too much money until the feasibility period ends.

**How long is that generally in a land contract?**

Depending on the size of the property and the amount. Sometimes you have two weeks if it's a hot market. Sometimes if we know the market and the property is very desirable and we know the area, we might put an offer without any feasibility period because we have a good feel for what we're doing and we're willing to risk a little money. Sometimes you have to do that if the market is very hot.

Most cases, you're going to probably get thirty days. This is probably an average. If it's a huge property with a lot of things to investigate, you can pull off sixty to ninety days, perhaps even longer if it's necessary. I think on this one, we probably got thirty days if I recall and that gave us enough time to do the basics to get the title work and a phase one and survey and all of those investigations so it worked out.

**To close on the land takes how long? About 30 days, 60 days?**

Yeah, 30, 45 days. You want to start that very early on. While you're doing all of this initial investigation, you already want to have a bank chosen already in discussions. Thankfully we have lines of credit so we didn't need an approval. If you need an approval, you need a couple of weeks for that, 2 to 3 weeks and then another 2 to 3 weeks for an appraisal for them to get a title commitment based on the loan amount which is separate from your acquisition title commitment. You need a new one, an updated one, a city planning letter and then once they approve, they have to process and proceed with loan document preparation. Yes, I would suggest at least 45 days to have all of this process done with your bank.

**Okay, so we're to the point that we've closed the loan. At this point in time, do you have in house construction. Did you already have designs developed for the homes that you wanted to build?**

By the time we closed on the property, we did not have final ones. We had preliminary. We had the footprint of the house, the lot fit. We had floor plans. We didn't have selections or specifications in detail but we had a pretty good idea of what we were doing to run our numbers to do our budget. After we close, we probably had a few months while we finalize those and again, started soon after. It took us a few months to develop. While you're developing the land it allows you to finish up all of those details on the construction budgets, specifications, selections and all of that.

**Were there any surprises in either closing the land or in building the properties on Barbara Rose? Maybe something popped up. It sounds like due diligence feasibility went pretty smooth but did something pop up afterwards that you were like, "We've got to deal with that?" how did this all go?**

This one wasn't too bad. We have always a number of surprises. We don't have enough time to go through them. Sometimes we start digging and we find underground situations, maybe a line that was running there that was not recorded, obstructions or issues of that nature, issues with the city with permits.

In this particular case, just to be very specific, we did find that the sewer line and the water line were deeper than we had anticipated and not in the exact location with the underground maps. This is something that I neglected to comment. There are underground maps when you're doing your due diligence to ensure that there are proper water and sewer and storm sewer and drainage and all of that.

It marked a little bit different than when where they actually were so that affected our budget. We had to do something that's called a plan and profile which is an engineer design on how you're going to connect to those services. That added some cost. It was a surprise because we made the assumption that those lines were where the where the map indicated it and they weren't accurate.

At least the depth was much different than what we anticipated and once we got our plumber in place, we ended up paying a little bit extra. Another big surprise, the city ended up doing some construction

which we did not know so when we were trying to build and subsequently market these homes, the street was a total mess, it was a chaos. It was hard to access, it was hard to show it and that cost us a little bit of time and grief but we were able to work around it eventually.

## Market Signals: Determining The Inflection Point To Pivot To A BTR Exit Strategy

**All right, I want to pivot to a couple more questions on how you handled the development and made this transition from developing homes that you were originally going to sell to actually converting it into build to rent community. I've got some mindset questions for you, I guess I would say. We know the market this process takes a while. You already mentioned that it takes about 45 days to close, you got a few other months to finalize your drawings, you have like 6 to 12 months for the construction piece. The market is turning. What was the inflection point where you just said, "We need plan B and this is what plan B is going to be?" What were the signals here that helped you determine that you needed to pivot?**

We historically don't even try to market our homes until they're close to completion. Call it 60 days prior to completion and we start monitoring traffic. Incidentally interest rates were already high. That's one of the funny things. They were already high and we had been doing well but somehow, inventory started to rise, traffic started to slow down. Normally we will pre-sell a few units in every one of our developments and here we had very little traffic, no offers yet.

We decided to discount them a little bit and still not much traction going on. As we got to completion, it was a red flag that we had very little traffic, no offers, no contracts. As you said, the interest rates the carrying costs are being heavy because when you start building, obviously you only pay interest on the amount that you have drawn up to that point.

Once you're completed, you've drawn close to \$3 million and now you're paying interest on the full amount. At that point, you have to make some quick decisions. We noticed that in order for us to sell them, we would have to substantially discount them. That's when we pulled the trigger and said "no, let's put one for rent and see what happens or a couple of them." to our surprise, they rented fairly quickly and that's when we decided to go in that route.

### **What is your exit plan for this set of homes?**

The exit strategy is number one to wait because the market has not improved in that price point in that area. There's still significant amount of inventory. One of two. To be patient when the market turns, A, or B, interest rates go down. Either one would help. We have the ability since we these are separate units and they have their own legal description we're able to either sell them individually or sell them to an investor as a group.

**Tweet:** The exit strategy is to wait because the market has not improved in that price point in that area.

Our first attempt is going to be to sell and market the entire development to an investor as a rental community. Whatever happens first. If interest rates go down, that's going to be the better exit. If interest don't go down but the market gets better, then it's going to make more sense for us to sell them individually. We're going to make that decision when 1 of those 2 happens and I suspect it'll be at least another year.

## Structuring Your First BTR Deal: Capital Requirements And Reserve Strategies

**All right, so all this takes money in order to complete. Let's talk about how you structured this. Before the show, we were talking about you had a partner. For somebody who's reading and says, "Jose,**

**you've landed on a very unique model. I want to replicate this in my market," what kind of pockets do you need in order to get this going?**

Thankfully in our case, we have a pretty decent balance sheet. We have equity, we own real estate, we own land and we've been doing this for many years. We're able to just make those decisions and say, "All right, we have \$352,000. We have a balance sheet where we're required literally to have millions of dollars in cash reserve." we just decided to turn it leave the equity there and no problem.

When you're limited and you don't have those types of options, let's call it, and you're able to go to an investor. Let's say that it was either your capital or your investor's capital, my recommendation is to always know up front that if you're going to invest any amount of money, it may get stuck in the project. Issue number one. You have to be ready that in the event that you have to rent these units or convert them the bank and a long-term loan. A permanent loan is going to require your equity to stay there. You better not need that money for a prolonged period of time.

If you have investors, my recommendation is to inform them in advance of the possibility of a plan B if everything goes wrong. Let's say you borrow those \$350,000 of equity from an investor, let them know "Our plan is to exit, sell the units, get our money back with a profit. If the market changes, there's a probability that we're going to have to stay there longer. Yes, you're going to get a return via appreciation over time plus a return on the investment by renting the homes." I think you have to be honest with yourself about what you're getting into and be able to sustain that and leave the money. If you need the money urgently at some point in the short-term, it becomes a little more dangerous and speculative.

**I was going to follow up with a comment and then a question because a lot of operators have gotten stung by the market turning, them needing their own capital back, investors in their deals needing their capital back. If somebody is doing this as their first or second not deal but maybe build to rent community and the market does turn on them, what kind of reserves would somebody need to have in place say on Barbara Rose in order to hold on to the deal like you did?**

You need at least six months of cash reserves to carry the development from completion. Multiply the total loan amount times the interest rate times six months. I think that gives you enough time to pivot or make some adjustments or do what you need to do. The other important one is that you never depend on your livelihood and your personal expenses for the duration of that project.

One of the big mistakes I see investors and new developers make is that they start carving money out of their draws and out of the investment because they think the moment they sell the houses, they're going to make a profit and they'll reimburse them. They're already counting their profits before the property sell. I don't think that anybody should get into these types of developments without them funding themselves from somewhere else for the duration of the project. In other words, don't depend on living off of this until you have built that pipeline.



This is a very underestimated, underappreciated business where in order for you to be successful, a lot of stars have to align.

## Avoiding Development Landmines: Partnering With A Reliable BTR Contractor

**Sage advice. Now, in wrapping up, I have a question for you. If a first-time operator is wanting to get into a deal like this, what are the biggest landmines that they might hit and they should be aware of?**

There are a number of them. This is a very underestimated, underappreciated business where in order for you to be successful, a lot of stars have to align. You have to find the right property for the right amount. You have to get the financing. You have to have good credit. You have to be able to have the equity, have the financing which are obvious, but a very good contractor.

If you're new, obviously you don't have the construction team to do it yourself. Partner with a very credible company that can guarantee your construction costs, that can guarantee the delivery properly, that you're not going to give out deposits to random contractors and they're going to run away with your money and leave you with a project that was incomplete. The biggest danger in this business is to end up with an incomplete project. You need someone reliable. Do your research, investigate who you're hiring to do the construction for you and make sure they have very good credentials and very good references.

**Sage words. Jose, thank you so much for your insights. If readers want to connect with you and learn more, how can they do so?**

[Joseberlanga.com](http://Joseberlanga.com). My books are on Amazon and all of the book platforms. Unfortunately, I'm always in this business. As we're discussing, it's so busy that I never have time to do as much fun social media as I

would like to do but now I'm teaching some classes and doing some mentoring. Through my website [joseberlanga.com](http://joseberlanga.com) is the easiest way.

**Jose, thank you again for joining us and we look forward to hearing about your future deals.**

Thank you, Whitney. It was a pleasure being here with you.

## Important Links

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